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PENSIONS & August 21, 1989
InvestmentAge
The newspaper of corporate and institutional investing

Corporate boards take heat

Ex-SEC chief, fund push accountability

By Marcia Parker

A former chief of the Securities and Exchange Commission is calling on the SEC and Congress to strengthen the role and accountability of boards in corporate America.

The testimony of Roderick Hills is yet another voice in the ever-louder chorus trying to shake up corporate America's already uneasy boards, and making greater accountability of directors a priority.

In addition, the $14 billion Pennsylvania Public School Employes' Retirement System pension fund formulated a new comprehensive review policy for director candidates.

Meanwhile, the Hampton Corporate Strategy Group Inc., North Hampton, N.H., a small consulting firm to insurance companies and banks on director liability issues, is paying more attention to assessing the independence of corporate boards and to boosting their effectiveness.

A House subcommittee this month heard several proposals by Mr. Hills to bolster the role and accountability of the independent director.

He suggested management be required to disclose in great detail why any independent director leaves the board before normal retirement age. The same requirement should apply to the directors themselves. To encourage more communication, he said, the SEC also should require a greater explanation of how independent directors on audit or other committees keep open communication channels to outside auditors, counsel and company officers.

Mr. Hills also proposed the evaluation of independent directors be certified and maintained by the audit committee and that outside directors who lead proxy fights be given greater access to the proxy machinery.

He is managing partner at the Washington office of Donovan Leisure Newton & Irvine, and chairman of the Manchester Group Ltd., a private investment group. He was chairman of the SEC from 1975 to 1977 and chairman of Republic Corp. from 1971 to 1975.

Mr. Hills testified Aug. 2 before the Subcommittee on Telecommunications and Finance of the Committee on Energy and Commerce, which is interested in the question of whether shareholders should have greater access to the proxy machinery of the corporation in which they invest. His remarks on corporate directors were part of the broader issues he raised in connection with how corporations should be governed and what is wrong with the proxy system.

"That corporate directors still fall short of the mark too often can scarcely be doubted. Too many will resign from their friend's board rather than cause a public confrontation. Too many are put in place by the unilateral, unquestioned decision of the chief executive officer, and too many are easily displaced when they quarrel with the boss," Mr. Hills said.

"Directors are reluctant to check on management by seeking and encouraging candid conversation with independent counsels and auditors and inside general counsels and chief financial officers."

On the shareholder front,

Continued on page 55

Brignoli partners fold firm

By Barry B. Burr

NEW YORK — Brignoli, Curley & Roberts Associates, one of the fastest growing and most successful money management firms formed during the 1980s' bull market, will dissolve now that a federal judge ruled Richard Brignoli misappropriated funds, ran the firm for his selfish interest and attempted to freeze out his partners.

U.S. District Judge Milton Pollack's 31-page decision, issued Aug. 4, found in favor of John J. Curley, Duane G. Roberts and James Karanfilian, all partners in the firm, who sued Mr. Brignoli, the controlling partner.

In his decision, Judge Pollack ordered the removal of Mr. Brignoli from BCR, and placed control with Messrs. Curley, Roberts and Karanfilian and other limited partners, who then voted to dissolve the firm.

With their case against Mr. Brignoli settled in their favor, Messrs. Curley, Roberts and Karanfilian now plan to market to pension funds a quantitative equity strategy through their new firm, Cornerstone Asset Management Partners.

Mr. Brignoli plans to focus on Brignoli Advisers Inc., a subsidiary of Brignoli Models Inc. that was formed in early 1988 to offer a quantitative equity strategy called volatility capture.

The decision removing Mr. Brignoli from control of BCR marks the fifth ruling against him or his interests since October.

One ruling involved a companion case to the BCR suit: A federal court jury after deliberating only 35 minutes ruled in July against Mr. Brignoli in

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Photo by Alice Garik

Duane Roberts, left, and John J. Curley will dissolve Brignoli, Curley & Roberts Associates and will run their new firm.

California court voids M&A fee

Ruling could hurt banks, investors

By Marlene Givant Star

Investment bankers nationwide could stand to lose billions of dollars in fees over a decision being petitioned to the California Supreme Court that would make some investment banking activities in the state require a real estate broker's license.

That, in turn, could translate into fewer deals for investors.

In the case — All Points Traders Inc. vs. Barrington Associates — an appeals court ruled All Points did not have to pay Barrington, its investment banking boutique, a commission on a mergers and acquisitions transaction because Barrington lacked a real estate broker's license.

The decision by the California Court of Appeal 2nd Appellate District Division 3, Los Angeles, hinged on a little-known provision in a more than 50-year-old law that requires any person acting as a "business opportunity" broker or salesman to possess a real estate license.

The ruling affects dealmakers nationwide because anyone with a hand in a California transaction would have to possess a state real estate license.

A nationwide cast of top law firms, the Securities Industry Association, mergers and acquisitions boutiques and securities firms of all sizes is rallying to prevent a California appellate court decision from threatening their advisory fee income.

"Practically anybody that deals with M&A has an interest in this," said William Fitzpatrick, general counsel to the SIA, New York.

"A number of investment bankers may be hesitant to participate in transactions because they can't receive commissions because of this" ruling, said Richard Damm, consultant to the California Legislature Senate Commission on Corporate Governance, Shareholder Rights and Securities Transactions.

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LATE NEWS

Northern Trust purchases firm

CHICAGO — The Northern Trust Corp. plans to acquire Berry, Hartell & Evers, a San Francisco money management firm, subject to approval by the Securities and Exchange Commission. The price was not disclosed.

Berry, Hartell & Evers manages equity and fixed-income accounts totaling $285 million, of which $50 million is tax exempt.

The acquisition fits in well with Northern Trust Corp.'s strategy of expanding in California, said Van R. Gathany, executive vice president. The firm has opened Northern Trust of California offices in Los Angeles, San Francisco, Santa Barbara, Newport Beach and San Diego to offer asset management and fiduciary services.

Berry, Hartell & Evers will have increased opportunity for growth with the new ownership, said Kenneth E. Berry, partner. Access to Northern's investment research will be a major advantage, he said, adding the firm will continue to operate in its present form.

Northern Trust Corp. is the holding company for Northern Trust Co., one of the nation's largest master trust banks, with $160 billion in domestic master trust and master custody assets and $13.2 billion in global custody assets, and the parent of Northern Investment Management Co., which runs $23 billion, including $18 billion that is tax exempt.

Arbitraged index fund dropped

CHICAGO — Stein Roe & Farnham Inc. will discontinue offering arbitrage-enhanced stock index funds, said William Andrews, first vice president.

The firm manages $75 million, all tax exempt, in the funds, which are enhanced with futures and options. The spreads between stocks and derivative instruments have narrowed to the point where the strategy does not add as much value as it used to and now is less attractive to clients, Mr. Andrews said.

Stein Roe & Farnham will keep handling the funds until its clients have new managers in place, he added.

California hires real estate help

SACRAMENTO, Calif. — The $53 billion California Public Employees' Retirement System hired Security Pacific Real Estate Investment Bank as a national loan correspondent to identify real estate financing opportunities and help underwrite and service the investments.

The California pension fund and Security Pacific Real Estate Investment Bank, a division of Security Pacific National Bank, have worked together in the past. The bank is a key player in the national real estate markets.

Partner at Frontenac loses bid

CHICAGO — A Cook County Circuit Court judge has denied venture capitalist David R. Dullum's request to block the reorganization of Frontenac Venture Co., the firm from which Mr. Dullum alleges he was illegally and fraudulently removed.

Mr. Dullum, who had been one of three managing general partners of the firm, filed suit in early August against the others, Martin J. Koldyke and Rodney L. Goldstein.

Messrs. Dullum, Koldyke and Goldstein were the firm's management committee; Mr. Dullum was asked to leave the firm May 3 after a dispute with the others over the election of a fourth member, James Cowie, to that committee.

Circuit Judge Thomas Rakowski declined to stop the reorganization of the firm into a new partnership, ruling the original Frontenac partnership was dissolved automatically by the disagreement between Mr. Dullum and the others. A unanimous vote was required for the partnership to remain intact, the judge ruled.

Still to be resolved is the issue of Mr. Dullum's financial share of Frontenac, said Michael M. Conway, attorney for Messrs. Koldyke and Goldstein. Mr. Dullum's attorney did not return calls for comment.

Frontenac manages about $300 million, largely for institutional investors.

Goldin pulls $3 billion account

NEW YORK — New York City Comptroller Harrison J. Goldin has withdrawn the designation of Irving Trust Co., which is merging with the Bank of New York, as custodian of some $3 billion in short-term assets for both the city and its five pension funds, with assets of $35 billion. The assignment was withdrawn because the banks couldn't meet a deadline for producing an acceptable equal employment opportunity commitment.

Irving had served as custodian of the assets since 1975.

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Assessing the harm

Indictments spur review by investors

By Trudy Ring

Institutional investors still are trying to determine whether any of their trades were affected by the practices that resulted in indictments of 46 Chicago futures traders.

The investors added fallout from the probe might hamper market activity for a while but likely will benefit it in the long run.

A federal grand jury in Chicago brought indictments Aug. 2 against traders in the Treasury bond and soybean futures pits at the Chicago Board of Trade and the yen and Swiss franc futures pits at the Chicago Mercantile Exchange.

The indictments allege traders engaged in various fraudulent practices. These include "bucketing," arranging for friends to take the other sides of trades while not getting the best prices for customers; "front-running," trading for themselves before executing customer orders, usually resulting in gains for traders and losses to customers; dumping losses into the accounts of other traders and promising to repay them by skimming profits from customers; and creating fictitious losing trades to hide profits from the Internal Revenue Service.

The indictments came out of an investigation in which four FBI agents posed as futures traders.

Of the contracts involved,

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Photo by Michael Marotte

Investors say market activity at the Chicago Mercantile Exchange, above, and Board of Trade will be hampered only temporarily following the indictment of 46 Chicago futures traders.

5 leave Merus; client pulls out

By Barry B. Burr

SAN FRANCISCO — Anthony E. Spare, chief investment officer of Bank of California's Merus Capital Management, and five key colleagues have left to form a firm that will duplicate the dividend yield investment strategy they used at Merus.

Federal Express Corp. pulled its $65 million equity portfolio from Merus the day it learned of Mr. Spare's departure, said Bill Gurner, manager-trust investments for the $700 million Memphis, Tenn.-based pension fund.

Mr. Gurner said Federal Express, a client for two years, had been satisfied with Merus' performance and would have kept its portfolio there had Mr. Spare stayed. It immediately hired Barrow, Hanley, Mewhinney & Strauss Inc., Dallas, to run the $65 million in equities, he added.

"We were wounded, but we certainly aren't devastated" by the departures of Mr. Spare and the other executives, said Ralph Rasmussen, executive vice president and head of the bank's trust department and investment group, to whom Mr. Spare had reported.

Joelle Yuna, Merus' manager-corporate communications, said Federal Express is the only client to have left as a result of the departures. "This is the only one that has so notified us, and we've talked to everyone," she said. All the others said they would stay with Merus to see if the change of personnel affects performance, she added.

Mr. Rasmussen said he doesn't believe the departures will affect Merus' management because it uses a team approach, rather than relying on individual portfolio managers. Merus employs about 40 people in investment management, he noted.

Merus, which managed $1.8 billion in tax-exempt assets before the Federal Express account was terminated, was formed as a division of the Bank of California after the bank was acquired in 1984 by Mitsubishi Bank Ltd. of Japan.

Mr. Spare was unavailable for comment. Nancy Tengler, Merus' former director-marketing and client relations for large institutions, who joined Mr. Spare as a principal in the new firm, said they left because of the increasing control Mitsubishi exercised. She said Mr. Spare would have to elaborate.

Mr. Rasmussen noted Mitsubishi had created the more autonomous structure of Merus, and had placed Mr. Spare at the helm. "There's the great irony of it," Mr. Rasmussen said. "To make a claim otherwise I find laughable."

He said Mr. Spare's abrupt departure after 26 years with the bank was a surprise. "We didn't want him to leave."

Bradford Hatcher, vice president and senior investment officer who supervised regional portfolio

Continued on page 49

Global issues thrive

By Marlene Givant Star

International structured financings are flourishing in the Euromarkets and in various non-U.S. markets.

Rated issues climbed to a total of $9.75 billion in non-U.S. markets alone in 1988, from $3.2 billion in 1987, according to a report on international structured finance by Standard & Poor's Corp., New York.

The Bank for International Settlements' capital guidelines are expected to expand the market even further in 1989 as financial institutions shed assets to meet capital ratios. Beyond 1989, these institutions will turn to asset-backed securities as they look to fund lower-risk/lower-return assets off their balance sheets to keep capital ratios strong without turning away good customers, the report said.

Regulation of securitization is developing with the growth of asset-backed markets. The Bank of England issued a notice in February on loan transfers and securitization removing major uncertainties surrounding the treatment of securitized assets for U.K. banks, and France issued laws

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PIPER

Funds long on quality

Default fears end the reign of high-yield portfolios

By Fred Williams

High-quality and longer maturity bond portfolios captured the top positions in the second quarter Pensions and Investments' Performance Evaluation Report, while high-yield bond portfolios dropped back after occupying the top spot for the previous two quarters.

Fears of junk bond defaults and of a recession, coupled with a rally in the fixed-income market, sparked the surge by high-quality longer-term bond funds.

The rally in the bond market began in March and gathered momentum in early June with the continued advance of the dollar and a growing belief the economy was slowing.

The Boatmen's Trust Co. Bond Fund, with assets of $155 million, returned 13.27% in the quarter ended June 30 to lead all PIPER bond funds for the period. That fund was followed by Equitable Capital Management Corp.'s Separate Account No. 5 bond fund with a return of 10.69%, and Transamerica Life Insurance Co. Separate Account T-2 with 10.09%.

The Shearson Lehman Hutton Government/Corporate Bond Index advanced 8.04% during the quarter; the median PIPER bond fund was up 6.78%.

The Boatmen's fund finished in the upper decile for the long term as well. For the year ended June 30 it returned 21.16%; for three years, 9.8%; five years, 19.71%; and 10 years, 13.89%. (All returns for periods of more than one year are compound annualized.)

The Equitable and Transamerica funds also finished in the upper decile for the one- three- and five-year periods. Equitable reported returns of 16.54%, 10.24% and 18.31%, respectively; Transamerica returned 16.77%, 11.86% and 17.88%, respectively.

The median PIPER fund was up 11.01% for the 12 months; 8.01% for three years; 13.4% for five years; and 10.77% for 10 years. The Shearson Lehman Hutton Government/Corporate Index was up 12.33%, 8.12%, 14.43% and 11.27% for the same periods.

PIPER's fixed-income universe is composed of 305 bank and insurance company commingled funds with total assets of $20.2 billion.

The high-yield bond fund of First Variable Life Insurance Co., which had led the field for all periods in the previous two quarters fell to the seventh decile for the second quarter. It remained at or near the top for longer periods, reporting 19.14% for the 12 months; 13.66% for three years; 18.36% for five years; and 16.14% for 10 years.

In comparison, First Variable's high-quality fixed-income fund, with $3 million in total assets, finished in the top decile for the quarter with a return of 8.44%.

Rebecca H. Garner, vice president at Amherst Investment Management Co., Little Rock, which manages the First Variable funds, said junk bond funds were up for the quarter "but not up as much as Treasuries."

"The Treasury market went berserk (in the second quarter) and nothing keeps in lockstep with Treasuries, as yields go down prices go up and our prices (junk bonds) didn't go up as much," she said. "Treasuries moved up a lot faster because it is a global market."

The First Variable fund finishing in the top decile for the quarter was longer term in nature and made up of high-quality, primarily utility, issues. "It is a high quality, very conservatively managed fund with a 20-year average maturity," she said.

The $155 million Boatmen's fund is made up primarily of U.S. government agency issues and Treasury instruments, said Robert Franklin, chief investment officer for the St. Louis bank.

"Right now it is a high-quality portfolio. We have our tactics — sector selection and credit analysis. Those two are telling us there is a strong likelihood of a recession, thus we are out of corporates right now," he said.

"Last year, junk (bonds) did well. They started 1988 with the thought there could be a recession; it became evident there wouldn't be one and they had a nice move up."

Mr. Franklin said the current

Continued on page 25

Fixed-income funds
(periods ended June 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	13.27%	21.16%	13.66%	19.71%	16.14%
First quartile	7.58	12.2	8.56	14.57	11.56
Median	6.78	11.01	8.01	13.4	10.77
Third quartile	5.54	9.78	7.57	11.99	10.2
Lowest return	2.21	6.47	3.4	5.59	7.05
Shearson G/C	8.04	12.33	8.12	14.43	11.27

Growth strategy pays off

By Leonard J. Hollie

Emphasizing growth made equity funds the top performers in the quarter and year ended June 30 in Pensions & Investments' Performance Evaluation Report.

In the PIPER one-year returns, two Equitable Capital Management Corp. equity funds were among the year's top three performers. Equitable's No. 4 growth fund led for the year with 30.28%; the Equitable No. 1 fund came in third with 28.42%. Gary-Wheaton Bank's Growth Equity Fund was second for the year with 28.68%.

The 20 year-old No. 4 growth fund has $1.2 billion in assets and is value-oriented.

Alden Stewart, Equitable executive vice president, who has managed the fund for 12 years, said he concentrates on buying companies with the most potential for growth. Mr. Stewart declined to name specific holdings, but said stocks in telecommunications, pollution control, engineering and construction, and media and entertainment were mostly responsible for the growth.

Equitable's $226 million No. 1 fund is a conservative growth and income account. It is broadly diversified with a position that is smaller than the No. 4 fund, said Eric Leo, managing director.

Mr. Leo said the fund's investments are similar to the No. 4 fund, and he plans to move the fund into investments in natural gas and utilities.

The Standard & Poor's 500 Stock Index returned 8.71% for the quarter and 20.36% for the year. The median PIPER equity fund returned 7.62% return for the quarter and 17.77% for the year.

The median funds' underperformance of the S&P continued in the longer periods. The median for the three years ended June 30 was 10.06% compared with 11.95% for the year.

For the five-year period, the median fund returned 18%, compared with 20.08% for the S&P. For the 10-year period, the median was 16.33%; the S&P returned 17.02%. All returns for periods exceeding one year are compound annualized.

For the second quarter, Shearson Lehman Hutton Trust Co.'s Flexible Growth 7 Fund was first with 16.57%.

Larry Tashjian, portfolio manager at Provident Investment Counsel, Pasadena, Calif., which provides investment advice for the Shearson Lehman Hutton account, said the 6-year-old fund has $3 million and holds 30 issues. Its assets have been invested in a number of hot stocks in several industries, including entertainment and waste management. In entertainment, some of the holdings are **Walt Disney Co.**, **Warner Communications Inc.** and **Paramount Communications Inc.** In waste management services, some of the holdings are **Browning-Ferris Industries Inc.** and **Waste Management Inc.**

"The strong gains generated by quality growth has been recognized by a number of investors," said Mr. Tashjian.

For the longer periods, First Fidelity Bank, Newark, N.J., led the three-year period with 20.05%. It was followed by United Bank of Denver's equity fund at 20.42%; Bank One Indianapolis' Fund L with 20.1%; and First Chicago Investment Advisers' equity fund with 19.16%.

Sun Bank Capital Management, Orlando, Fla., led both the five-year period with 29.37% and the 10-year period with 24.06%.

For the five-year period, it was followed by Bank One Indianapolis with 27.21% and the Matrix Synthesis fund of State Street Bank, Boston, with 24.6%. For the 10 years, it was followed by the equity fund of Manufacturers Life Insurance Co., Toronto, with 22.84% and First Fidelity Bank with 21.06%.

Anthony Gray, vice president and chief investment officer, said

Continued on page 25

Pooled equity funds
(periods ended June 30)

	Quarter	1 yr.	3 yr.	5 yr.	10 yr.
Highest return	16.57%	30.28%	20.55%	29.37%	24.06%
First quartile	8.69	20.26	12.11	19.97	17.56
Median	7.62	17.77	10.06	18	16.33
Third quartile	6.43	14.83	8.11	16.54	14.7
Lowest return	1.76	−9.14	−8.12	8.81	8.84
S&P 500	8.71	20.36	11.95	20.08	17.02

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PIPER

Top quartile commingled equity funds

3-month returns

	%
SLH Trust (Flex growth 7), Del.	16.6
Equitable Capital (No. 4), N.Y.	13.5
Lincoln Nat'l (Select), Ind.	12.4
First Trust, Colo.	12.0
Princeton Bank, N.J.	11.8
IDS Trust (Core growth), Minn.	11.8
First Wis. Asset (Growth A)	11.7
Chase-CMB (Spectrum), N.Y.	11.6
Chancellor Capital (Research)	11.1
Valley Fidelity, Tenn.	11.1
Pioneer Bank, Ill.	11.1
Trust Co. of West (Strategy)	11.0
Irving Trust, N.Y.	10.8
Commercial Capital, Ariz.	10.7
American Nat'l Chicago (Active)	10.7
Markston Investment Mgmt., N.Y.	10.6
Mark Twain Bank, Mo.	10.6
Equitable Capital (No. 1), N.Y.	10.5
Chancellor Capital, N.Y.	10.5
Firstier Bank Omaha	10.4
Bank One Indianapolis (L)	10.4
Commercial Capital (Spec.), Ark.	10.3
Mercantile Bank, Mo.	9.8
Sun Bank, Fla.	9.8
AmSouth, Ala.	9.8
Hamilton Bank, Pa.	9.7
US Nat'l Bank, Texas	9.7
Fidelity Mgmt. (Earn.), Mass.	9.6
MTrust (Growth), Texas	9.6
Merchants Nat'l (2), Ind.	9.6
Home Life, N.Y.	9.5
First Nat'l of Toledo, Ohio	9.5
Oregon Bank	9.4
Chase-CMB (Index), N.Y.	9.4
Morgan Guaranty (Lg. co.), N.Y.	9.3
Independence Invest. (1K), Mass.	9.3
Bessemer Trust, N.Y.	9.3
Boatmen's FNB Kansas City, Mo.	9.3
Prudential (VCA-9), N.J.	9.2
CIGNA Corp. (SA A), Conn.	9.2
Wilmington Trust-Tremont (Return)	9.1
IAA Trust (C), Ill.	9.1
Citizens Comm. (Growth), Mich.	9.1
NCNB Nat'l Bank, N.C.	9.1
Shawmut Bank, Mass.	9.1
Wilmington-Tremont (Growth)	9.1
Associated Kellogg, Wis.	9.0
First Variable Life, Ark.	9.0
Chancellor Capital (Enhanced)	9.0
First Asset Mgmt., Minn.	8.9
C & S Trust Florida	8.9
First Asset Mgmt., Minn.	8.9
Chancellor Capital (Index)	8.8
First Interstate of Arizona	8.8
Wells Fargo (Index), Calif.	8.8
State Street (Index), Mass.	8.8
Second Nat'l Bank, Ohio	8.8
Travelers Insurance (SA 500)	8.8
Northern Trust (Select), Ill.	8.8
State Street (Matrix syn.), Mass.	8.8
First Bank Milwaukee	8.8
Central Fidelity, Va.	8.8
Bank of Delaware (VIP)	8.8
First Nat'l of Tulsa, Okla.	8.7
First Interstate of California (Index)	8.7
Standard & Poor's	**8.7**
Chase-CMB (Index), N.Y.	8.7
Bankers Trust (Index), N.Y.	8.7
Johnson County Bank, Kan.	8.7
General American (Index), Mo.	8.7

1-year returns

	%
Equitable Capital (No. 4), N.Y.	30.3
Gary-Wheaton Bank (Growth), Ill.	28.7
Equitable Capital (No.1), N.Y.	28.4
Chase-CMB (Spectrum), N.Y.	27.8
US Nat'l Bank, Texas	27.8
Firstier Bank Omaha, Neb.	27.5
Lincoln Nat'l (Select), Ind.	27.2
Markston Investment Mgmt., N.Y.	27.1
Mark Twain Bank, Mo.	26.9
New York Life (SA 6), N.Y.	26.4
SLH Trust (Flex growth 7), Del.	26.2
Associated Manitowoc, Wis.	25.7
Second Nat'l Bank, Ohio	25.4
Irving Trust, N.Y.	25.0
Independence Invest. (1K), Mass.	24.7
Crown Life (US grp.), Ontario	24.7
Summit Bank, Ind.	24.3
NCNB Nat'l Bank, N.C.	24.0
Connecticut Mutual (CM)	23.7
American Nat'l Chicago (Active)	23.6
Pennsylvania Mutual (SA A)	23.3
Bank One Wisconsin (Growth)	23.0
Jefferson Trust (Growth), Ill.	22.9
Merchants Nat'l (2), Ind.	22.8
First Nat'l Mercantile (G&I A), Mo.	22.7
State Street (Matrix syn.), Mass.	22.6
MTrust (Growth), Texas	22.6
First Chicago	22.6
Crestar Bank (5822), Va.	22.4
Exchange Nat'l-Chicago (Mgd.)	22.4
Independence Invest. (1L), Mass.	22.1
Citizens Bank (B), Mo.	22.0
IDS Trust (Core growth), Minn.	22.0
Chase-CMB (Index), N.Y.	22.0
Mercantile Nat'l, Ind.	21.9
Merus Capital (Income), Calif.	21.9
Nat'l Bank of Commerce, Neb.	21.9
C & S Trust Florida	21.8
Banc One Asset (Corp.), Ohio	21.8
State Street Bank, Mass.	21.7
Exchange Nat'l-Chicago	21.7
Merchants Nat'l (I), Ind.	21.7
Valley Fidelity, Tenn.	21.6
Chancellor Capital (Enhanced)	21.5
Capital Trust (I), Ore.	21.5
Morgan Guaranty (Lg. co.), N.Y.	21.2
LaSalle Nat'l (Intrinsic), Ill.	21.0
Mercantile Bank, Mo.	20.9
Stock Yards Bank (Trust), Ky.	20.8
First Union (Enhanced), N.C.	20.8
State Street (Index), Mass.	20.7
Dominion Trust (Corp.), Va.	20.7
Mid-State Bank, Pa.	20.7
Bankers Trust (Index), N.Y.	20.6
Citizens Comm. (Growth), Mich.	20.6
Chancellor Capital, N.Y.	20.6
Travelers Insurance (SA 500)	20.6
Wells Fargo (Index), Calif.	20.6
Employers Life of Wausau (SA 1)	20.6
Chancellor Capital (Index)	20.6
Standard & Poor's	**20.4**
First Interstate/California (Index)	20.4
Confederation Life, Ga.	20.3
Chase-CMB (S&P index), N.Y.	20.3
Trust Co. of West (Strat.), Calif.	20.3
Bank One Wis. Trust (Disciplined)	20.3

3-year returns

	%
First Fidelity Bank (Disc.), N.J.	20.6
United Capital, Colo.	20.4
Bank One, Indianapolis (L)	20.1
First Chicago	19.2
Crown Life (US grp.), Ontario	17.7
Bank One Wis. Trust (Disciplined)	17.2
Irving Trust, N.Y.	17.0
State Street (Matrix syn.), Mass.	17.0
Capital Trust (I), Ore.	16.3
Sun Bank, Fla.	16.2
US Nat'l Bank, Texas	15.8
Merus Capital (Income), Calif.	14.9
Sovran Capital (Inst.), Va.	14.7
Confederation Life, Ga.	14.4
State Bank (C), Ohio	14.3
State Street Bank, Mass.	14.1
American Nat'l St. Paul, Minn.	14.1
The Phoenix, Conn.	14.1
Independence Invest. (1K), Mass.	13.9
First Illinois (Personal)	13.8
Mutual of New York (Income)	13.8
Markston Investment Mgmt., N.Y.	13.8
NCNB Texas (Diverse)	13.7
IDS Trust (Core growth), Minn.	13.7
Wellington Trust (Divers.), Mass.	13.6
Chase-CMB (Spectrum), N.Y.	13.6
Cullen Bank, Texas	13.5
Jefferson Trust (Growth), Ill.	13.5
Mutual of New York (Divers.)	13.3
South Carolina Nat'l	13.2
Mark Twain Bank, Mo.	13.2
First Illinois (Corp.)	13.1
Chase-CMB (Index), N.Y.	13.0
Connecticut Mutual (CM)	13.0
Equitable Capital (No. 4), N.Y.	12.9
Lincoln Nat'l (Select), Ind.	12.9
Mid-State Bank, Pa.	12.9
Merus Capital (Growth/strat.)	12.9
Valley Nat'l (I), Ariz.	12.8
Chancellor Capital (Research)	12.7
NCNB Nat'l Bank, N.C.	12.6
US Nat'l Oregon (Qualivest)	12.6
Dominion Trust (Corp.), Va.	12.6
Wellington Trust (Inc.), Mass.	12.6
NCNB Texas (Income)	12.5
First Interstate Oregon	12.5
Associated Manitowoc, Wis.	12.4
First Nat'l of Omaha (D)	12.4
First Alabama Bank (I)	12.4
General American (Index), Mo.	12.3
Crestar Bank (5822), Va.	12.3
Wheeling Dollar Bank, W.Va.	12.3
Fidelity Mgmt (Inc.), Mass.	12.2
American Nat'l Chicago (Active)	12.2
Travelers Insurance (SA 500)	12.2
First Interstate of Calif. (Index)	12.1
First Nat'l of Maryland	12.1
Bankers Trust (Index), N.Y.	12.1
SLH Trust (Value 4), Del.	12.1
MTrust (Value), Texas	12.1
State Street (Index), Mass.	12.1
Ameritrust (Diversified), Ohio	12.1
Standard & Poor's	**12.0**

5-year returns

	%
Sun Bank, Fla.	29.4
Bank One, Indianapolis (L)	27.2
State Street (Matrix syn.)	24.6
State Bank (C), Ohio	24.5
IDS Trust, (Core growth), Minn.	23.2
NCNB Texas (Diverse)	23.2
Pioneer Bank, Ill.	23.2
Merus Capital (Income), Calif.	23.0
Chancellor Capital (Research)	22.8
Capital Trust (I), Ore.	22.2
First Chicago	22.2

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PIPER

Firstier Bank Omaha	22.1
NCNB Texas (Income)	22.1
Bank One Wis. Trust (Disciplined)	21.9
Morgan Guaranty (Lg. co.), N.Y.	21.8
US Nat'l Bank, Texas	21.8
First Fidelity (Disc.), N.J.	21.7
Guardian Insurance (VA 1), N.Y.	21.5
State Street Bank, Mass.	21.3
United Capital Mgmt., Colo.	21.3
First Fidelity, N.J.	21.2
Crown Life (US grp.) Ontario	21.1
First NH Investment (A)	21.1
Independence Invest. (1K), Mass.	21.0
First Interstate Oregon	20.9
American Nat'l Chicago (Active)	20.8
Barnett Banks, Fla.	20.6
Mellon Equity Associates, Pa.	20.6
Markston Investment Mgmt., N.Y.	20.6
Equitable Capital (No. 4), N.Y.	20.6
IDS Trust (A), Minn.	20.5
Wellington Trust (Divers.), Mass.	20.5
Sovran Capital, Va.	20.5
Merus Capital (Growth strat.)	20.5
Puget Sound Nat'l, Wash.	20.5
Southtrust Bank, Ala.	20.4
Dominion Trust (Corp.), Va.	20.4
Summit Trust, N.J.	20.4
Bankers Trust (Index), N.Y.	20.3
Irving Trust, N.Y.	20.3
First Illinois (Corp.)	20.3
Mutual of New York (Inc.), N.Y.	20.2
SLH Trust (Flex-growth 7), Del.	20.2
MTrust (Growth), Texas	20.2
Wells Fargo (Index), Calif.	20.2
American Nat'l St. Paul, Minn.	20.2
MTrust (Value), Texas	20.2
Cullen Bank, Texas	20.1
Chase-CMB (S&P index), N.Y.	20.1
Standard & Poor's	**20.1**
State Street (Index), Mass.	20.1
First Trust, Colo.	20.1
Associated Manitowoc, Wis.	20.0
Bank of New England (Valuepath)	20.0

10-year returns

	%
Sun Bank, Fla.	24.1
Manufacturers Life, Ontario	22.8
First Fidelity Bank (Disc.), N.J.	21.1
First Union Nat'l Bank, N.C.	20.7
United Capital, Colo.	20.5
Guardian Insurance (VA 1), N.Y.	20.3
Merus Capital (Income), Calif.	19.9
Equitable Capital (No. 4), N.Y.	19.9
The New England (Sep. cap.)	19.8
US Nat'l Bank, Texas	19.8
First NH Investment (A)	19.7
First Interstate of Oklahoma	19.6
US Nat'l Oregon (Qualivest)	19.3
MTrust (Growth), Texas	19.3
Provident Capital, Pa.	19.1
Confederation Life, Ga.	19.0
Connecticut Mutual Life (CM)	18.9
State Street Bank, Mass.	18.9
First Trust Corp., Colo.	18.8
MTrust (Value), Texas	18.7
Markston Investment Mgmt., N.Y.	18.7
First Interstate Oregon	18.7
Manufacturers Detroit	18.6
Merus Capital (Growth/strat.)	18.6
NCNB Texas (Diverse)	18.3
Firstier Bank Omaha	18.3
First Fidelity Bank, N.J.	18.3
Citizens Bank (B), Mo.	18.2
First Nat'l of Omaha (D)	18.2
American Nat'l Chicago (Active)	18.2
ALIAC (Variable/tot)	18.1
Bessemer Trust, N.Y.	18.1
Dauphin Deposit (Corp.), Pa.	18.1
Lake Shore Nat'l, Ill.	18.1
C & S Trust Florida	18.0
Massachusetts Mutual	18.0
Nat'l Bank of Commerce, Neb.	17.9
Home Life, N.Y.	17.8
Employers Life of Wausau (SA 1)	17.8
Citytrust (E1), Conn.	17.8
Wheeling Dollar Bank, W. Va.	17.8
Chase-CMB (Spectrum), N.Y.	17.6
Standard & Poor's	**17.0**

Top quartile commingled fixed-income funds

3-month returns

	%
Boatmen's Trust, Mo.	13.3
Equitable Capital (No. 5), N.Y.	10.7
Transamerica Life (SA T-2), Calif.	10.1
NCNB Texas (Long term)	10.0
Chase-CMB (Long term), N.Y.	9.8
Union Nat'l Wichita, Kan.	9.4
Irving Trust, N.Y.	9.3

Top equity funds by size

1-year

Over $100 million

	%
Equitable Capital (No. 4), N.Y.	30.3
Equitable Capital (No. 1), N.Y.	28.4
Markston Invest. Mgmt., N.Y.	27.1
New York Life (SA 6), N.Y.	26.4
Independence Invest. (1K)	24.7
NCNB Nat'l Bank, N.C.	24.0
American Nat'l Chicago (Act.)	23.6
MTrust (Growth), Texas	22.6
First Chicago	22.6
Independence Invest. (1L)	22.1

$50 million to $100 million

	%
Chase-CMB (Spectrum), N.Y.	27.8
Lincoln Nat'l (Select), Ind.	27.2
Crestar Bank (5822), Va.	22.4
Nat'l Bank of Commerce, Neb.	21.9
Mercantile Bank, Mo.	20.9
First Interstate/Calif. (Index)	20.4
Trust Co. of West (Strat.)	20.3
Midlantic, N.J.	20.2
First Fidelity Bank, N.J.	20.1
General American (Index), Mo.	19.8

$10 million to $50 million

	%
US Nat'l Bank, Texas	27.8
Firstier Bank Omaha	27.5
Irving Trust, N.Y.	25.0
Crown Life (US grp.), Ontario	24.7
Summit Bank, Ind.	24.3
Connecticut Mutual (CM)	23.7
Pennsylvania Mutual (SA A)	23.3
Bank One Wis. Trust (Growth)	23.0
Jefferson Trust (Growth), Ill.	22.9
First Nat'l Mercantile (A), Mo.	22.7

Under $10 million

	%
Gary-Wheaton Bank (Growth)	28.7
SLH Trust (Flex growth 7)	26.2
Associated Manitowoc, Wis.	25.7
Second Nat'l Bank, Ohio	25.4
Merchants Nat'l (2), Ind.	22.8
Exchange Nat'l (Mgd)	22.48
IDS Trust (Core growth), Minn.	22.0
Mercantile Nat'l, Ind.	21.9
Exchange Nat'l	21.7
First Interstate Oregon	20.1

10-year returns

Over $100 million

	%
Sun Bank, Fla.	24.1
Manufacturers Life, Ontario	22.8
First Union Nat'l Bank, N.C.	20.7
Merus Capital (Inc.), Calif.	19.9
Equitable Capital (No. 4), N.Y.	19.9
The New England (Sep. gro.)	19.8
US Nat'l Oregon (Qualivest)	19.3
MTrust (Growth), Texas	19.3
Provident Capital, Pa.	19.1
Markston Invest. Mgmt., N.Y.	18.7

$50 million to $100 million

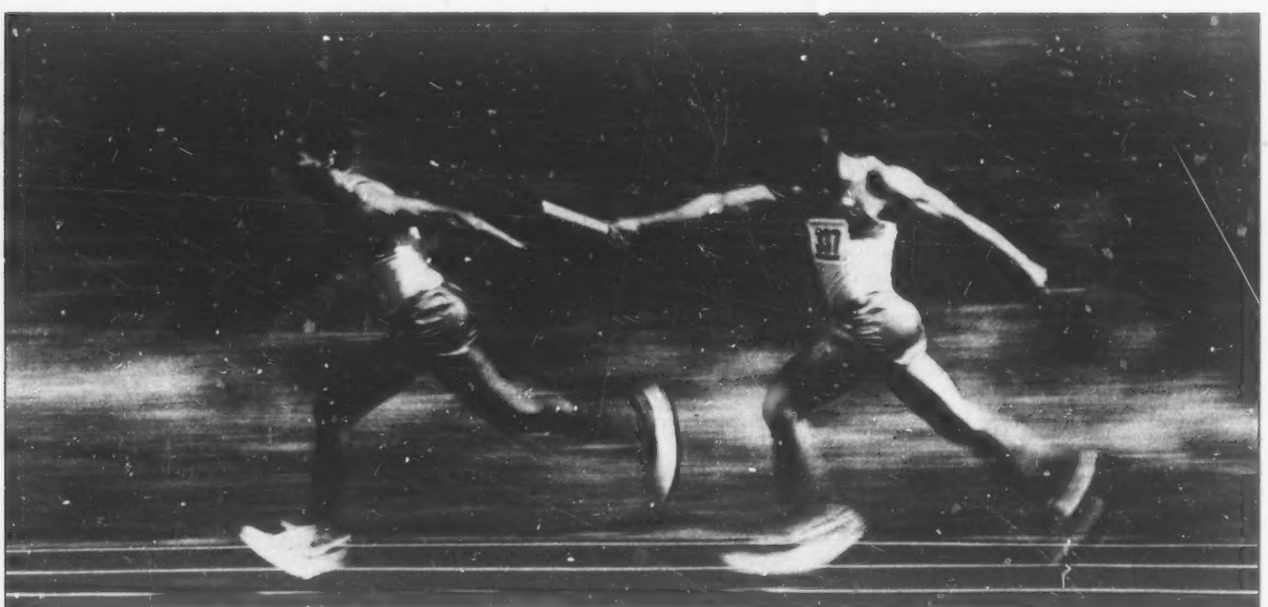
	%
Merus Capital (Growth/strat.)	18.6
NCNB Texas (Diverse)	18.3
First Fidelity Bank, N.J.	18.3
Nat'l Bank of Commerce, Neb.	17.9
Chase-CMB (Spectrum), N.Y.	17.6
Texas Commerce (Diverse)	17.5
The Phoenix, Conn.	17.4
Mercantile Safe, Md.	17.3
AmSouth, Ala.	17.1
First Wis. Asset (Growth A)	17.0

$10 million to $50 million

	%
First Fidelity (Disc.), N.J.	21.1
United Mgmt., Colo.	20.5
Guardian Insurance (VA 1)	20.3
US Nat'l Bank, Texas	19.8
First Interstate of Oklahoma	19.6
Confederation Life, Ga.	19.0
Connecticut Mutual (CM)	18.9
State Street Bank, Mass.	18.9
First Trust Corp., Colo.	18.8
MTrust (Value), Texas	18.7

Under $10 million

	%
First NH Investment (A)	19.7
First Interstate Oregon	18.7
Wheeling Dollar Bank, W.Va.	17.8
Union Central, Ohio	16.9
Puget Sound Nat'l, Wash.	16.5
Associated Manitowoc, Wis.	16.4
Merchants Nat'l (2), Ind.	16.3
First Nat'l of Commerce, La.	15.8
Second Nat'l Bank, Ohio	15.8
Old Second Nat'l (HR 10), Ill.	15.2



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*Performance data quoted represents past performance. Investment return and principal value will fluctuate and redemption value may be more or less than original cost.

PIA

PIPER

Independence Invest., Mass.	9.3
Boatmen's FNB Kansas City, Mo.	9.2
AmSouth, Ala.	9.1
Manufacturers Life (B), Ontario	9.1
Bessemer Trust, N.Y.	9.0
CIGNA Corp. (Active), Conn.	8.7
Midlantic, N.J.	8.7
Mercantile Bank, Mo.	8.7
Mellon Bond, Pa.	8.5
Sunburst Bank, Miss.	8.5
First Variable Life (HQ), Ark.	8.4
Firstier Bank Omaha	8.4
Hawaiian Trust	8.3
New York Life (SA 4)	8.3
Harris Trust, Ill.	8.3
First Wachovia, N.C.	8.2
Bank of Oklahoma Tulsa	8.2
Chase-CMB (CMB index), N.Y.	8.2
Texas Commerce (Active)	8.2
Chemical Bank (Bondex I), N.Y.	8.2
Barnett Bank, Fla.	8.1
IDS Trust (A), Minn.	8.1
Manufacturers Detroit	8.1
Key Trust, N.Y.	8.1
Wellington Trust (Gov./corp)	8.1
Wells Fargo (Index), Calif.	8.1
Minnesota Mutual (SA E)	8.0
Shearson Lehman G/C	**8.0**
Bank of New England, Mass.	8.0
Bankers Trust (SLGC index)	8.0
Aetna Life (SA 76), Conn.	8.0
Connecticut Bank	7.9
Sun Bank, Fla.	7.9
Fidelity Bank, Pa.	7.9
Deposit Guaranty, Miss.	7.9
First Interstate of California	7.8
The Principal, Iowa	7.8
SLH Trust (Direct 5), Del.	7.8
Bankers Trust (Mtg.), N.Y.	7.8
First Asset Mgmt., Minn.	7.7
Citizens Fidelity (F), Ky.	7.7
IAA Trust (B), Ill.	7.7
Life of Virginia	7.7
First Nat'l of Omaha (C), Neb.	7.7
NCNB Nat'l Bank, N.C.	7.7
Chemical Bank (2), N.Y.	7.7
Central Fidelity, Va.	7.7
Delaware Trust	7.7
Johnson County Bank, Kan.	7.7
First Asset Mgmt., Minn.	7.6
Cullen Bank, Texas	7.6
Pacific Mutual, Calif.	7.6
Bank of Delaware	7.6
LaSalle Nat'l (Inter.), Ill.	7.6
Travelers Cos. (Index), Conn.	7.6

1-year returns

	%
Boatmen's Trust, Mo.	21.2
First Variable Life, Ark.	19.1
Transamerica Life (SA T-2), Calif.	16.8
Equitable Capital (5), N.Y.	16.5
NCNB Texas (Long)	16.3
Irving Trust, N.Y.	15.8

Chase-CMB (Long), N.Y.	15.7
First Variable (HQ), Ark.	15.1
General American (SA 9), Mo.	15.0
Delaware Trust	14.6
Independence Invest., Mass.	14.5
Bank of Delaware	14.5
First Interstate of California	14.4
CIGNA Corp. (Active), Conn.	14.3
Life of Virginia	14.2
Pacific Mutual, Calif.	14.0
AmSouth, Ala.	13.8
Jefferson Trust, Ill.	13.7
Fidelity Bank, Pa.	13.5
Bankers Trust (Index)	13.5
Sunburst Bank, Miss.	13.5
Cullen Bank, Texas	13.5
First Wachovia, N.C.	13.4
Imperial Trust, Calif.	13.3
Chase-CMB (Index), N.Y.	13.3
New York Life (SA 4), N.Y.	13.2
Mellon Bond, Pa.	13.1
Mercantile Bank, Mo.	13.0
Bessemer Trust, N.Y.	13.0
Aetna Life (SA 7[illegible]), Conn.	12.9
The Principal, Iowa	12.8
First Asset Mgmt., Minn.	12.7
First Asset Mgmt., Minn.	12.7
IDS Trust (A), Minn.	12.7
Key Trust, N.Y.	12.7
Second Nat'l Bank, Ohio	12.7
Marine Midland, N.Y.	12.6
Texas Commerce (Active)	12.6
Harris Trust, Ill.	12.6
Midlantic, N.J.	12.6
Manufacturers [illegible] Ontario	12.6
Bank of Okla[illegible]	12.5
Bank of New [illegible]s	12.5
Travelers Cos. [illegible]	12.5
First Chicago	12.5
Wells Fargo (Index), C.	12.4
Chemical Bank (Bondex I), N.Y.	12.4
Lincoln Nat'l (Corp.), Ind.	12.4
Greeley Nat'l, Colo.	12.4
Morgan Guaranty, N.Y.	12.4
Sovran Capital (Inst.), Va.	12.4
Beverly Trust, Ill.	12.3
Shawmut Bank, Mass.	12.3
Shearson Lehman G/C	**12.3**
Nat'l City Cleveland, Ohio	12.3
Wellington Trust (Gov./corp.)	12.3
Merus Capital (Flexible), Calif.	12.3
Johnson County Bank, Kan.	12.2
NCNB Nat'l Bank, N.C.	12.2
Sun Bank, Fla.	12.2
First Nat'l of Maryland	12.2
Barnett Bank, Fla.	12.2
Bank One, Indianapolis	12.2
Connecticut Bank	12.2

3-year returns

	%
First Variable Life, Ark.	13.7
Delaware Trust	12.5

Transamerica Life (SA T-2), Calif.	11.9
Beverly Trust, Ill.	11.0
Trust Co. West (High yield)	11.0
General American (SA 9), Mo.	10.4
Bankers Trust (Mtg.), N.Y.	10.2
Equitable Capital (No.5), N.Y.	10.2
Pacific Mutual, Calif.	10.1
Boatmen's Trust, Mo.	9.8
IAA Trust (B), Ill.	9.7
First Interstate of California	9.7
First Chicago	9.7
Trustmark Nat'l, Miss.	9.7
Midlantic, N.J.	9.6
Wellington Trust (Emerg.), Mass.	9.5
First Wachovia, N.C.	9.5
Aetna Life (Shares/tot.), Conn.	9.5
Harris Trust, Ill.	9.5
Mid-State Bank, Pa.	9.5
Sunburst Bank, Miss.	9.4
Cullen Bank, Texas	9.4
Mercantile Safe, Md.	9.4
SeaFirst Bank, Wash.	9.3
New York Life (SA 4), N.Y.	9.3
The Principal, Iowa	9.3
Morgan Guaranty, N.Y.	9.3
Northern Trust, Ill.	9.3
Sovran Capital (Inst.), Va.	9.3
Independence Invest., Mass.	9.2
Columbus Bank, Ga.	9.2
Summit Trust, N.J.	9.2
Marine Midland, N.Y.	9.1
Chancellor Capital (Mtg.)	9.1
Capital Trust, Ore.	9.1
Exchange Nat'l Bank, Ill.	9.1
Jefferson Trust, Ill.	9.1
Chase-CMB (Sec. mtg.), N.Y.	9.0
AmSouth, Ala.	9.0
Dominion Trust (Stable cap.), Va.	9.0
Crown Life (U.S.), Ontario	8.9
Bankers Trust (A), N.Y.	8.9
Central Fidelity, Va.	8.9
Irving Trust, N.Y.	8.9
Mercantile Bank, Mo.	8.8
Hawaiian Trust (Defensive)	8.8
Wellington Trust (Interm.), Mass.	8.8
Harris Trust (Gain), Ill.	8.8
First Nat'l of Maryland	8.8
Wheeling Dollar Bank, W. Va.	8.8
Nat'l Bank of Detroit	8.7
Chase-CMB (Long term), N.Y.	8.7
Norwest Bank, Minn.	8.7
Shawmut Bank, Mass.	8.7
Chancellor Capital (Bondshift)	8.6
Bessemer Trust, N.Y.	8.6
Trustcorp Bank, Ohio	8.6
Mellon Bond, Pa.	8.6
Fidelity Bank, Pa.	8.6
First Nat'l Mercantile (B), Mo.	8.6
Second Nat'l Bank, Ohio	8.6
Chicago Title & Trust, Ill.	8.6
Shearson Lehman G/C	**8.1**

5-year returns

	%
Boatmen's Trust, Mo.	19.7
United Capital Mgmt., Colo.	19.3
Delaware Trust	18.5
First Variable Life, Ark.	18.4
Equitable Capital (No.5), N.Y.	18.3
Sunburst Bank, Miss.	18.0
Transamerica Life, (SA T-2)	17.9
Beverly Trust, Ill.	16.8

Connecticut Nat'l Bank	16.7
LaSalle Nat'l (Long term), Ill.	16.6
Manufacturers Life (B), Ontario	16.4
IAA Trust (B), Ill.	16.4
The Principal, Iowa	16.3
Independence Invest., Mass.	16.3
First Variable Life (HQ), Ark.	16.2
NCNB Texas (Long term)	16.2

Top fixed funds by size

1-year returns

Over $100 million

	%
Boatmen's Trust, Mo.	21.2
Transamerica Life (SA T-2)	16.8
Equitable Capital (No. 5)	16.5
Chase-CMB (Long term)	15.7
Independence Invest., Mass.	14.5
Cigna Corp. (Active), Conn.	14.3
Pacific Mutual, Calif.	14.0
First Wachovia, N.C.	13.4
New York Life (SA 4)	13.2
Mellon Bond, Pa.	13.1

$50 million to $100 million

	%
Life of Virginia	14.2
Fidelity Bank, Pa.	13.5
Marine Midland, N.Y.	12.6
Midlantic, N.J.	12.6
Bank of Oklahoma, Tulsa	12.5
Travelers Cos. (Index), Conn.	12.5
Chemical Bank (Bondex I)	12.4
Barnett Bank, Fla.	12.2
Northern Trust, Ill.	11.9
Comerica, Mich.	11.8

$10 million to $50 million

	%
NCNB Texas, (Long term)	16.3
Irving Trust, N.Y.	15.8
General American (SA 9)	15.0
Delaware Trust	14.6
Bank of Delaware	14.5
First Interstate of California	14.4
AmSouth, Ala.	13.8
Jefferson Trust, Ill.	13.7
Bankers Trust (Index)	13.5
Cullen Bank, Texas	13.5

Under $10 million

	%
First Variable Life, Ark.	19.1
First Variable Life (HQ), Ark.	15.1
Sunburst Bank, Miss.	13.5
Imperial Trust, Calif.	13.3
IDS Trust (A), Minn.	12.7
Second Nat'l Bank, Ohio	12.7
Greeley Nat'l, Colo.	12.4
Hamilton Bank, Pa.	12.0
Connecticut Nat'l Bank	11.8
LaSalle Nat'l (Long term)	11.8

10-year returns

Over $100 million

	%
Boatmen's Trust, Mo.	13.9
Sovran Capital, Va.	13.5
Pacific Mutual, Calif.	12.8
Texas Commerce (Active)	12.6
Morgan Guaranty, N.Y.	12.3
Bankers Trust (Mtg.), N.Y.	12.2
Independence Invest., Mass.	12.0
Bank of New England, Mass.	12.0
Mercantile Bank, Mo.	12.0
Aetna Life (Shares/tot)	11.8

$50 million to $100 million

	%
United Capital Mgmt.,Colo.	13.6
Fidelity Bank, Pa.	12.6
Life of Virginia	12.5
Nat'l Westminster Bank, N.J.	12.0
Hibernia Nat'l, La.	11.9
Manufacturers Detroit	11.8
Bankers Trust (A), N.Y.	11.6
Bankers Trust (B), N.Y.	11.4
Massachusetts Mutual	11.2
Chancellor Capital (Inter.)	11.2

$10 million to $50 million

	%
Beverly Trust, Ill.	13.7
SeaFirst Bank	13.0
First Interstate of California	12.5
First Interstate of Arizona	12.2
Cullen Bank, Texas	12.1
IAA Trust (B), Ill.	11.8
First Wisconsin Asset	11.8
Jefferson Trust, Ill.	11.8
Boatmen's FNB Kansas City	11.7
American Nat'l Bank, Tenn.	11.7

Under $10 million

	%
First Variable Life, Ark.	16.1
Central Fidelity, Va.	12.1
Connecticut Nat'l Bank	12.0
Second Nat'l Bank, Ohio	11.6
Hamilton Bank, Pa.	11.6
Oregon Bank	11.3
Assoc. Manitowoc (High inc.)	11.1
Exchange Nat'l Bank, Ill.	11.0
Firstier Bank Lincoln, Neb.	10.8
First NH Investment (B)	10.6

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Market indexes surpass median

WAYNE, Pa. — Median portfolios in the SEI Funds Evaluation Services universe lagged market indexes for periods ended June 30, after having outperformed their benchmarks slightly in the first quarter.

In the second quarter, the median equity fund returned 7.8%, while equity portions of balanced funds had a median return of 8.1%.

The Standard & Poor's 500 Stock Index returned 8.7%.

The median bond fund returned 6.5% in the quarter and the median bond portion of balanced funds returned 7.1%.

The Shearson Lehman Hutton Government/Corporate Bond Index and the Salomon Brothers Broad Investment Grade Bond Index both returned 8%.

The median balanced fund returned 7% in the quarter.

For the year ended June 30, the median equity portfolio returned 18% and the median equity portion of balanced portfolios returned 18.9%. The S&P 500 returned 20.4%.

The median bond fund returned 10.5% for the year and the median bond portion of balanced funds returned 11.1%. The Shearson index returned 12.3% and the Salomon index advanced 12.2%.

The median balanced fund returned 14.5% for the year.

For the five years ended June 30, the median equity fund had a compound annual return of 19.2%. The median equity portion of balanced funds had 20.2%. The S&P 500's return was 20.1%.

The median bond fund returned an annualized 13.6% in the period, while the median bond portion of balanced funds returned 14.2%. The Shearson index returned 14.4% and the Salomon index had 14.8%.

In the first quarter, median equity and bond returns slightly exceeded market indexes; in the fourth quarter of 1988, median equity returns lagged the market and bond funds outperformed their benchmarks. Returns for longer periods ended March 31 were mixed, as were long-term returns for periods ended Dec. 31.

As of June 30, equity funds' median market exposure was 93.4%; their median cash position was 5.3%. Bond funds' median market exposure was 90%; their median cash position was 6.4%. Among balanced funds, the median equity exposure was 49.3%, the median bond commitment was 36.5% and the median cash position was 8.5%.

In all cases, the median asset allocations were largely unchanged from the previous quarter's mix.

Among the S&P 500 stocks, the quarter's best performers were consumer staples, returning 15.3%. Utilities returned 13.9%; building, 9.9%; finance, also 9.9%; producer durables, 9.7%; consumer discretionary, 8.6%; transportation, 8.3%; health, 6.4%; technology, 6.1%; energy, 4.8%; and materials and processing, 3.4%.

For the year ended June 30, consumer staples also led with a 47% return. Utilities had 27.2%; finance, 26.5%; health, 24.7%; transportation, 22%; energy, 19.4%; consumer discretionary, 19%; materials and processing, 10.6%; building, 9.8%; producer durables, 8.8%; and technology, 1.5%.

Among bonds in the Salomon index, as categorized by issuer type, utilities had the quarter's best return, 9.3%. Governments and agencies had 8%; mortgages, 7.8%; industrials, 7.7%; and finance, 6.9%.

For the year, utilities again led with 15.5%. Governments and agencies had 12.1%; industrials, 11.9%; mortgages, 11.8%; and finance, 11.5%.

As categorized by quality, AAA and AA bonds, including government issues, returned 8% in the quarter and 12.1% for the year. Bonds rated A returned 8% for the quarter and 12.9% for the year; BBB bonds had 7.3% in the quarter and 12.7% on the year.

As measured by maturity, long bonds outperformed for the quarter, with 11.3%, and the year, with 17.4%. Intermediate bonds had 7% for the quarter and 10.8% for the year.

Issues classified as long had an average maturity of 22.6 years and an average duration of 9.6 years; intermediate bonds had an average maturity of 5.6 years and an average duration of 3.9 years. ■

Quality

Continued from page 17

economic and interest rate environment points to a long-term trend toward lower rates with 4% on long-term Treasuries and 5.5% on home mortgages.

Alden Stewart, executive vice president at Equitable Capital Management Corp., New York, said Separate Account No. 5 holds primarily government securities. He said the duration of the portfolio is managed aggressively depending on the market outlook.

Although the portfolio could be invested in cash or long bonds, "In the last 12 months . . . we have tended to be on the long side," he said.

Chase Manhattan Bank's long-term bond fund finished in the upper decile for the quarter seventh for the 12 months with returns of 9.77% and 15.66%.

Dan Roberts, managing director and head of Chase's fixed-income group, said the fund began lengthening maturities aggressively in April, and the fund now has a 65% weighting in U.S. Treasury bonds and 35% in high-quality corporate bonds.

Mr. Roberts said junk bond funds fell in the second quarter because of "fear of bankruptcy (in junk bond issuers). It's what you might expect, there has been a flight to quality. . . . As rates drop it's generally because there is a feeling that there will be an economic slowdown or recession. . . . A slowdown is bad news for high yield bonds and is better for long-term, high-quality issues."

The NCNB Texas long-term bond fund, with $15.5 million in assets, finished the quarter in fourth place with a 9.95% return and the 12 months in fifth place with 16.33%.

Brian Blake, portfolio manager and vice president of the NCNB fixed-income group, Dallas, said the volatility in the fixed-income market could result in stronger commitments to long-term bonds.

"Forward-looking people will be in high-quality from here on, but it will be a bumpy ride due to the volatility in the market and the liquidity in the market is not the best," he said.

"The market has been so volatile, one of the best ways to go is not to day trade and second guess the market place. That has paid off for us. There have been times when I wanted to cash out and go to cash, but if I had done that we wouldn't have had the returns we've had. It will be a continued bumpy ride. It sort of reminds me of a high-beta stock fund."

The NCNB portfolio was concentrated in high-coupon Treasury issues last year, but this year he started buying U.S. government agency securities, mortgage-backed securities and Canadian Yankee bonds. ■

AmSouth, Ala.	16.2
Bankers Trust (Mtg.), N.Y.	16.1
First Chicago	16.1
Life of Virginia	16.0
First Interstate of Arizona	15.7
Harris Trust, Ill.	15.6
Northern Trust, Ill.	15.5
First Wachovia, N.C.	15.5
SeaFirst Bank, Wash.	15.4
Comerica, Mich.	15.4
Bessemer Trust, N.Y.	15.4
Pacific Mutual, Calif.	15.4
Aetna Life (Shares/tot), Conn.	15.4
First Interstate of California	15.4
Connecticut Nat'l Bank (Inter)	15.3
Merus Capital (Flexible), Calif.	15.3
Nat'l Bank of Commerce, Neb.	15.2
General American (SA 9), Mo.	15.2
Johnson County Bank, Kan.	15.2
Morgan Guaranty, N.Y.	15.1
First Nat'l Mercantile (B), Mo.	15.1
Chancellor Capital, N.Y.	15.1
IDS Trust (A), Minn.	15.1
American Nat'l St. Paul, Minn.	15.0
Marine Midland, N.Y.	14.9
Sovran Capital (Inst.), Va.	14.9
Deposit Guaranty Nat'l, Miss.	14.9
Mellon Bond, Pa.	14.9
Central Fidelity, Va.	14.9
Bankers Trust (A), N.Y.	14.8
Key Trust, N.Y.	14.8
Wellington Trust (Gov./corp.)	14.8
Confederation Life (US), Ontario	14.7
CIGNA Corp. (Active), Conn.	14.6
Hawaiian Trust	14.6
Chemical Invst. Group (1), N.Y.	14.6
Manufacturers Detroit	14.6
Nat'l Bank of Detroit	14.6
Shearson Lehman G/C	**14.4**

10-year returns

	%
First Variable Life, Ark.	16.1
Boatmen's Trust, Mo.	13.9
Beverly Trust, Ill.	13.7
United Capital Mgmt., Colo.	13.6
Sovran Capital (Inst.), Va.	13.5
SeaFirst Bank (Sea Cap), Wash.	13.0
Pacific Mutual, Calif.	12.8
Fidelity Bank, Pa.	12.6
Texas Commerce (Active)	12.6
Life of Virginia	12.5
First Interstate of California	12.5
Morgan Guaranty, N.Y.	12.3
Bankers Trust (Mtg.), N.Y.	12.2
First Interstate of Arizona	12.2
Cullen Bank, Texas	12.1
Central Fidelity, Va.	12.1
Connecticut Nat'l Bank	12.0
Independence Invest., Mass.	12.0
Bank of New England, Mass.	12.0
Mercantile Bank, Mo.	12.0
Nat'l Westminster Bank, N.J.	12.0
Hibernia Nat'l, La.	11.9
Manufacturers Detroit	11.8
Aetna Life (Shares/tot.), Conn.	11.8
IAA Trust (B), Ill.	11.8
First Wisconsin Asset	11.8
Jefferson Trust, Ill.	11.8
Boatmen's FNB Kansas City, Mo.	11.7
American Nat'l Bank, Tenn.	11.7
Key Trust, N.Y.	11.7
First Nat'l of Maryland	11.7
Second Nat'l Bank, Ohio	11.6
Bessemer Trust, N.Y.	11.6
CIGNA Corp. (Active), Conn.	11.6
Hamilton Bank, Pa.	11.6
First Wachovia, N.C.	11.6
First Chicago	11.6
CIGNA Corp. (Inter. term), Conn.	11.6
Bankers Trust (A), N.Y.	11.6
Trustcorp Bank, Ohio	11.6
Shearson Lehman G/C	11.3

Growth

Continued from page 17

the successful long-term performance of the equity fund was caused by buying large-cap stocks, at a modest premium, that have above-average growth and above-average quality and then trading them actively.

"We also haven't used a lot of cyclical stocks and that has helped us," said Mr. Gray. Most of the fund's holdings are in consumer staples such as food and tobacco.

PIPER is compiled by Rogers Casey & Associates, Darien, Conn. The equity universe is composed of 330 pooled funds offered by banks, trust companies and insurance companies. ■

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August 1989

This announcement appears as a matter of record only.

Investors carrying a bigger burden

By Marlene Givant Star

Institutional investors are becoming more self-sufficient as their brokers are cutting back on unprofitable services.

But brokers are stressing their international capabilities as U.S. institutions — particularly pension funds — are bolstering overseas investments.

"Essentially brokers offer institutions two key services: research and liquidity. Our latest studies show they are cutting back in both areas," said Charley Ellis, a partner of Greenwich Associates, in a preface to a survey by the firm of 530 senior investment officers and 520 head traders at more than 600 of the country's largest investing institutions.

Institutions face the prospect of brokers not favoring them, so they are placing considerable emphasis on internal research and reducing their number of brokerage relationships, the report said.

The significant decline in market liquidity in reaction to the October 1987 stock market crash, the decline in equity underwriting and commission levels and the resulting strain on smaller firms that rely on soft dollar business are squeezing brokerage houses out of the marginal institutional arena.

On the international front, however, two-thirds of institutions said there has been an increase in the amount of foreign stock information they receive from American brokers. More than half said they have received greater non-U.S. stock information flow from foreign brokers.

Liquidity in foreign stocks is up slightly because of demand for foreign stocks among U.S. institutions and the fact that many foreign markets have outperformed the U.S. market. Among corporate pension funds with more than $1 billion, 74% invested in foreign stocks in 1988, and a further 9% plan to do so in 1989, according to Greenwich.

U.S. brokers are generating foreign stock research not only for domestic clients but for those in other markets in anticipation of Europe's post-1992 deregulation.

Domestically, high equity volumes prior to 1988 offset low and falling per-share commissions but now mergers and acquisitions and equity underwriting "have been carrying as much as 50% of some firms' research costs and providing most of the big profits," noted John Colon, a Greenwich consultant.

Equity commissions at the typical institution were down 26% last year with the average institutional investor paying 9.1 cents per share and the very large ones paying only 6.5 cents. For many trades, the going rate is between 5 and 6 cents (*Pensions & Investment Age*, April 3).

The average all-in cost of execution — including commissions, spread and market impact — is 10.5 cents per share for agency trades and 11.2 cents per share for trades requiring the committing of capital, down from 11.1 cents and 11.7 cents respectively a year ago. Commission discounts continued to increase and reached 48.8% in 1988. They are expected to expand even further in 1989 to 49.5%.

Portfolio managers typically control 47% of commissions — more than four times the commission business controlled by securities analysts.

Eleven percent of institutions made use of directed commissions in 1988 but the typical institution's soft dollar allocations declined 33% to $645,000 in 1988 from $956,000 in 1987. As a proportion of total commissions, soft dollar allocations have declined to 19.6% in 1988 from 21.7% in 1987; a further decrease to 18.8% is expected in 1989. Services most commonly paid for with soft dollars include performance measurement, stock quotation systems and third-party investment research.

Commissions from trading in derivatives such as stock index options and futures fell by 51% in 1988 to $63,000 for the typical institution with the most pronounced declines among the largest institutions.

The institutional concerns that surfaced after the October 1987 stock market have not changed. Institutional investors feel that program trading does cause problems but usually not severe. Front running is more of a concern than in the past.

Institutions are more concerned now that brokers handle sensitive orders discreetly and provide good coverage of the institutions' trading desks.

Even as the average number of analysts they employ is dropping, some institutional investors are adding professionals, the report said. Investing institutions have, on average, seven portfolio managers, two traders, and three securities analysts, a slight decline from last year.

Of the portfolio managers questioned about their reliance on internal as opposed to external research, 33% say they rely chiefly on internal and 45% on a mixture; fewer than 25% rely primarily on research by brokerage firms.

Meanwhile, Wall Street isn't slacking off on its research; it's just keeping more for itself.

The Instinet trading system received high marks from large institutions but nearly 90% of institutions with less than $10 million in commissions gave strong reasons for not using it.

Among institutions with commissions over $10 million a year, 70% are using Instinet, including all those with commissions over $20 million, the report said. ■

Defaults tracked

Bond defaults by issuers rated speculative grade were much more frequent on average than defaults by investment-grade issuers during the 19 years from 1970 through 1988, according to Moody's Investors Service.

The extensive study of default rates found that each year during that period, an average of 3.3% of all speculative-grade issuers defaulted on long-term bonds, compared with the 0.06% default rate for investment-grade bond issuers. Ten-year default rates averaged 17% for speculative-grade issuers compared with 2% for investment-grade issuers.

Moody's studied all issuers of bonds rated by the agency, including long-term U.S. and Eurodebt. It is the most extensive study of corporate bond defaults to be published in three decades. The universe grew from 950 issuers in 1970 to 2,800 issuers at year-end 1988 and included more than 3,000 companies, agencies and sovereign nations.

The Moody's study differs from three other well-known and often cited bond default studies.

Moody's found default rates in the past 19 years were less than half as severe as those reported in W. Braddock Hickman's 1958 study of U.S. market bond defaults from 1912 to 1944. Mr. Hickman's higher rates might be caused in part to the very high default rates during the Great Depression, Moody's said.

The rating agency's study found marginally higher default rates than those reported in a study by Edward Altman and Scott Nammacher, published in 1985 with annual updates. Part of the difference is attributed by Moody's to the fact the Altman-Nammacher study did not include distressed exchanges in their default statistics.

The Moody's study found somewhat lower default rates for speculative-grade issuers, compared with those reported earlier this year by Paul Asquith and colleagues of Harvard University.

The comparisons can be misleading, however, because the Harvard study focuses on new issues and the sampling was smaller, while Moody's data pertain to defaults among all speculative-grade issuers in each period and cover many more issuers.

In all the Moody's study revealed 222 issuers defaulted on long-term debt between 1970 and 1988, including both direct failures to pay one or more debt obligations and distressed exchanges in which a default would have occurred had bond investors not received early repayment via preferred stock or some other diminished obligation.

In total, defaults by 17 corporate issuers were precipitated by special events such as takeover-related activity and litigation. However, Moody's said the events did not have a significant impact on overall default rates during the study period.

The Moody's study confirms earlier bond default research, which found progressively lower rated issuers have significantly higher default rates than do higher rated issuers, especially among the speculative-grade categories.

Moody's research also found the variability of default rates increased markedly for lower-rated issuers. ■

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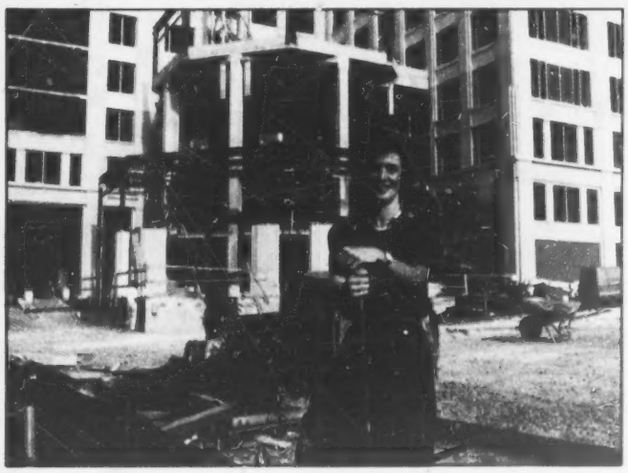
May 22 directory errors listed

Editor's note: *Since the publication of the May 22 money managers profile issue, the following corrections and clarifications have been noted by the firms profiled and the* Pensions & Investment Age *staff:*

- All figures reported in the **manager rankings** on Pages 3-8 represent discretionary assets under management only.
- The **discretionary tax-exempt assets** reported in the Page 1 story for the Top 200 and Top 500 managers were incorrect. The correct totals are $1.56 trillion and $1.83 trillion, respectively.
- **Aetna Life Insurance Co.**'s total discretionary assets should have been $72.788 billion.
- **Argus Investment Management** does not use sector rotation. It selects each individual equity on its own merit and broadly diversifies to avoid excessive concentrations.
- **Chase Investors Management Corp.**'s assets under management for the U.S. institutional, discretionary, tax-exempt funds as of Dec. 31, 1988, should have been reported at $13.9 billion. There were 217 separately managed accounts for a total of $6.9 billion and 200 clients in commingled funds for a total of $7 billion.
- **Markston Investment Management**'s investment style was stated incorrectly. Markston Investment, an equity manager, uses Graham & Dodd analysis with growth and low p/e stocks, investing in businesses whose profitable goods and services generate the cash necessary for research, development and capital needs. Markston offers a fundamental, high-yield bond portfolio.
- **Mt. Auburn Management** does not make use of options or stock index futures.
- **New York Life Insurance Co.** doesn't offer dedicated/immunized portfolio capabilities.
- **Security Pacific Investment Managers Inc.**'s total discretionary assets under management totaled $4.457 billion. U.S. institutional, tax-exempt discretionary assets should have been reported at $4.163 billion, representing separate accounts for 34 U.S. clients. The tax-exempt asset mix was 31.5% equities; 39.6% bonds; 18.1% cash; 5% mortgages; and 5.8% mortgage-backed securities.

Tax-exempt mortgage assets managed totaled $209 million; mortgage-backed securities were $243 million; and dedicated/immunized bonds were $450 million.



Cynthia Hargadon, in front of what will be ICMA's new headquarters, oversaw the reconstruction of the association's $1.3 billion defined contribution plan.

ICMA rebuilds retirement plan

By Leonard J. Hollie

WASHINGTON — The International City Management Association Retirement Corp., Washington, is restructuring its $1.3 billion defined contribution plan, bringing in innovations usually seen only in defined benefit plans.

The plan includes a $1.2 billion 457, and $114 million in its 401(a) and 401(k) accounts.

ICMA allocated $157 million to three new stock managers to emphasize growth and remove the volatility retirement corporation officials believe results from having a variety of investment management styles. Fund officials also added a South Africa-free stock index fund, and are planning other structural changes later this year.

"It just seemed to make more sense that growth stock was the style and the discipline that we needed to add to this fund," said Cindy Hargadon, vice president and chief investment officer for ICMA.

"The multimanager approach is new to the defined contribution area," said Mary Ann Johnson, president of Tremont Partners Inc., New Canaan, Conn., who assisted on the manager search and continues to help with planning and implementation for ICMA's retirement plans.

"A lot of plan sponsors have chosen one-stop shopping. They go to one mutual fund and assume that all the managers are good there," she said. "Some managers are better than others, and by

Continued on page 38

401(k) assets up 20% in '88

GICs most popular option

By Trudy Ring

Assets of 401(k) plans rose almost 20% during 1988, while mutual funds and guaranteed investment contracts continued to dominate as the most-used investments, a survey by *Pensions & Investment Age* shows.

The survey drew responses from 232 corporations, of which 207 offer a 401(k) plan and two are considering starting one.

Total assets of the plans in the survey grew $8.1 billion, or 19.85%, to $40.8 billion in 1988. Assets of the average plan grew $39.9 million, or 25%, to $200 million.

"That's certainly an exceptional rate of growth, but it shouldn't be surprising, for two reasons," said Ron Jones, partner of Hewitt Associates, Lincolnshire, Ill. The growth is on a relatively small base of assets, and there might have been some new plans formed in 1988, he said.

Still, the $40.8 billion is a large number for just 207 plans, indicating the plans have had phenomenal growth, said Mary Ann Johnson, president of Tremont Partners Inc., New Canaan, Conn.

The survey also showed that five major insurers, three index fund managers and three firms with big mutual fund operations are the most commonly used providers of investment services. The insurance company representation, however, likely is understated because many respondents did not identify the multiple insurance companies providing GICs to their funds.

The listing of insurers is logical because of the popularity of guaranteed investment contracts for 401(k)s — of the plans surveyed, 159 offer a GIC option. The second most popular option, offered by 129 plans, is active equity management, which often is accomplished through mutual funds. The third-place finisher was company stock, offered by 111 plans.

The listing of managers is "exactly what you would expect," Ms. Johnson said. She noted that even some of the non-insurers on the list offer portfolios of GICs. These include the top three, Fidelity Management & Research Corp., Boston; The Vanguard Group Inc., Valley Forge, Pa.; and Bankers Trust Co., New York. Further down the list, T. Rowe Price Associates Inc., Baltimore, has a GIC management subsidiary, T. Rowe Price Guaranteed Asset Advisers Inc., Glen Allen, Va.

Ms. Johnson said GICs have attracted about 70% of 401(k) assets, a statistic she finds distressing because almost no pension fund executive would put

Continued on page 36

401(k) plan survey

Investment options	No. of plans
GIC	159
Active equity	129
Company stock	111
Money market fund	75
Active bonds	63
Indexed equity	57
Balanced management	50
Int'l equity	10
Real estate fund	1

Type of investment manager

	No. of plans using
Insurance companies	131
Mutual funds	91
Other (Incl. company stock)	74
Banks	72

Firms most commonly used

For investment	No. of plans
Fidelity Mgmt. & Research	36
Vanguard	31
Bankers Trust	21
Aetna Life	18
Wells Fargo	14
Travelers	14
Metropolitan Life	13
New York Life	13
T. Rowe Price	11
State Street Bank	10
John Hancock	10
For administration	
Hewitt Associates	22
Bankers Trust	18
Mercer Meidinger Hansen	9
Wyatt	8
T. Rowe Price	7
Vanguard	7
Buck Consultants	7
Fidelity Mgmt. & Research	6
Ameritrust	5

Screening firms

Execs balance an array of needs

By Leonard J. Hollie

401(k) plan sponsors select asset managers based on ability, investment process and cost, while choosing investment options that offer their employees the greatest diversification.

At Sandoz Corp., New York, for example, James Woods, manager of corporate finance and pension funds, said Fidelity Management Trust Co., Boston, was hired for the plan's guaranteed investment contract fund, because of "its reputation, and because of their process, which was very important."

He said the company had a rational and a systematic way of looking at the market and at Sandoz' portfolio. "They gave us a strong rationale for how and when to make changes in the portfolio," he said. The fee structure also was a factor. "We suggested that the fees be competitive and they were," Mr. Woods said.

Lawrence Cavanaugh, director of employee benefits at United Technologies Corp., Hartford, Conn., said the company chose Bankers Trust Co. — Investment Management Group, New York, 11 years ago to manage the equity fund, because "they demonstrated the greatest ability and the greatest experience."

And at Reynolds Metal Co., Richmond, Va., Richard Turochy, manager-pensions financial administration, said the company was looking for someone who could run its fund as economically as possible when it hired Wells Fargo Investment Advisors, San Francisco, to manage its equity and fixed-income index funds. "They were able to do the kind of crosstrading of stocks that is necessary without charging large commissions," Mr. Turochy said.

When looking for plan providers, Mary Ann Johnson, president of Tremont Partners Inc., New Canaan, Conn., said it is very important to define what the choices are and how they will be structured, and to communicate the objectives of the plan to the employees.

Ms. Johnson, who acts as a consultant to many companies that start 401(k) plans or that expand options already offered, said 80% of the decision of what options to offer is administrative and 20% is an investment decision. She said

Continued on page 38

Europe 1992

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Assets up 20%

Continued from page 35

70% of defined benefit assets in GICs. Participants in 401(k) plans, however, view GICs as a secure investment, she noted. Ms. Johnson added she's encouraged by the number of plans offering an active equity choice.

For equity or other types of management, mutual fund companies have an advantage because either the entire company or an individual fund is well known to plan participants, Mr. Jones said. Also, asset values are available daily, and the funds can handle the liquidity needed by 401(k) plans.

The mutual fund complexes and other frequently used companies also offer a wide variety of investments. "We have as broad, or broader, an array of offerings anyone in the industry," said Gately, senior vice president-stitutional Vanguard.

Vangu uses other mo management firms to run seve of its funds, he added, giving p participants access to investm talent that often is not availa to small, individual investors.

Ability to offer other servi such as administration and tru eeship, also helps investm managers get 401(k) busine "Companies often are interes in having all of the services p vided by one organization," s Joan Green, senior vice presid in Bankers Trust's global fidu ary services group. The firm v the second most frequently u for administration among respo dents to *P&I Age's* survey.

Fidelity also has the ability offer one-stop shopping throu its various affiliates, includi trusteeship through Fidelity Ma agement Trust Co., said Rob Reynolds, president of the ne formed Fidelity Institutional tirement Services Co. The n subsidiary is dedicated to the fined contribution market, es cially 401(k) and 457 plans, a coordinates services from ot areas of the company, such as m tual funds from Fidelity Mana ment & Research and trustees from the trust company.

Fidelity and Vanguard pla among the top providers of a ministrative services to 401(k consulting firms also were po lar, with Hewitt Associates pl ing first among everyone in survey.

The mutual fund compani most popular investment offeri in the 401(k) market are th most famous funds — Fidelit Magellan, Equity Income a Freedom funds and Vanguar Windsor fund.

Ms. Green said Bankers Tr also has had success with mo market and GIC funds, as well with index funds — which p sponsors use as a conservative e uity option — and active mana ment of company stock. Va guard's Mr. Gately added firm's indexed stock fund h gone over big.

While alternative investme have made few inroads into 401 plans, some managers are wo ing on such options. Bank Trust is developing a pooled r estate fund for 401(k)s; it lik will be available to investors October, Ms. Green said. Al like some other managers, it ready has the capability to of international equity or fixed-come management to 401(k Only 10 plans in the survey of an international option, and j one has real estate.

Overall, 131 of the plans s veyed use insurance compan for money management, not s prising considering the predo nance of GICs. A total of 91 mutual fund companies, 72 banks and 74 use "other," a ca gory that includes managers ho ing company stock.

A total of 99 plans have ma manager changes during the of the plan, and 76 have chan administrators. The average of the plans surveyed is 5.1 yea

Of the plans reporting, 86 h company contributions direc by employees and 75 have th directed by the employer. Anot 32 have no employer contributi

A total of 128 sponsors offe defined benefit plan in additio the 401(k). Only 11 offer anot defined contribution plan a while 48 offer the 401(k), a fined benefit plan, and anot defined contribution plan.

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PORTFOLIO MANAGEMENT

Riots aside, Hong Kong is near top

By Barry B. Burr

SYRACUSE, N.Y. — The Tiananmen Square massacre apparently notwithstanding, Hong Kong offers by far a better market for commerce during the next five years than the United States, Canada, Japan and virtually all the rest of the world, according to an international business climate forecast.

On the other hand, *glasnost* and *perestroika* and the other such news emanating from the Soviet Union and Eastern Europe about the decline of communism have had no influence in improving the rating of that region, in general, despite the popular optimistic perception. In fact, the Soviet Union and most of the other East-bloc states rate the worst in at least five years.

The forecast, produced by Political Risk Services, a division of IBCUSA Inc., gives Hong Kong a rating of 94, a near-top score based on a scale of zero representing the most unfavorable climate for international business and 100 representing the most favorable.

Hong Kong's rating rose from a year ago, despite the massacre of students in Beijing that sent the Hong Kong stock market reeling.

By contrast, the International Business Climate Index rated the United States at 84, Canada 78 and Japan 85.

Of the 85 countries surveyed, only four attained better ratings than Hong Kong. Singapore, Norway, the United Kingdom and West Germany all were rated 96.

China was rated 56, down from 67 last year, and the lowest of the Asian countries surveyed. China, however, tied with or rated ahead of 12 other countries, including Turkey (53), El Salvador (53), Brazil (53), Ecuador (50) and Argentina (38), the country that attained the dubious distinction of being — by a wide margin — the lowest in the index.

The index represents a five-year forecast based on projections of turmoil, investment conditions, foreign trade policy and domestic and international economic policy. In all, 17 factors contribute to the index.

William D. Coplin and Michael K. O'Leary, professors in the Maxwell School of Citizenship and Public Affairs, Syracuse University, developed the index, which they've prepared annually since 1985.

Mr. Coplin said Hong Kong rates high because its business climate looks good for the five-year horizon the index considers.

"Nothing's going to happen for eight years," he added, referring to 1997 when Hong Kong reverts to Chinese rule.

As for China, he said, "We don't think the government has much control of the economy. There are still restrictions on international business. Regulations are uneven (applied to different degrees by different regions) and unreliable. Labor conditions and skills still aren't very good. In addition, they are constrained by the shortage of foreign exchange."

In Eastern Europe, despite further opening to the West, he said the lack of foreign exchange there also is a serious impediment. Besides, "they don't seem to have the political capacity to make changes," he added.

Mr. Coplin said he hasn't made any comparisons of the index and stock market and other investment returns in the countries. He said it's a relationship he would like to study, but noted the international business climate may have little explicit influence on stock market returns. Singling out Japan, he noted its stock market boomed while it restricted international business and imports.

Overall, the world average is at 70, the same level as last year.

Breaking the 85 countries down by region, the index gives the 21 Western-oriented industrial countries of the Organization of Economic Cooperation and Development an average rating of 85, up from 84 last year.

The eight Eastern European countries average 68, down from 75 last year and their lowest rating in at least five years. They are led by Czechoslovakia and Yugoslavia, both at 76, the only two countries in the region to improve in the ratings since last year. The Soviet Union rates 63, down from the 76 it had since 1985.

The 11 sub-Saharan African countries averaged 60, down from 61 last year. They are led by Gabon at 76 and trailed by Zambia at 49. South Africa rates 56.

The 13 Mideast countries, including those in North Africa, averaged 64, up from 63 last year. They are led by the United Arab Emirates at 76 and trailed by Egypt and Syria, both at 53. Israel has the second best rating in the region at 74.

The 12 Asian countries averaged 74, up from 70 last year.

The 11 Central American and Caribbean states averaged 67, up from 64 last year. They are led by Puerto Rico at 93; Mexico is second at 75. At the low end is El Salvador at 49 and the Dominican Republic at 57. ■

International Business Climate Index
(selected rankings)

	1989	1987	1985
Argentina	38	52	62
Australia	81	82	83
Brazil	53	49	62
Canada	78	76	85
Chile	68	46	40
China	56	61	67
East Germany	57	74	74
France	93	78	67
Hong Kong	94	94	78
Hungary	75	77	79
Italy	85	83	74
Japan	85	87	82
Mexico	75	49	51
Philippines	63	48	38
Poland	60	64	54
Singapore	96	93	85
South Korea	68	64	58
Spain	79	78	74
Taiwan	90	87	80
United Kingdom	96	85	76
United States	84	90	89
USSR	63	76	76
Venezuela	59	58	64
West Germany	96	94	88
Yugoslavia	76	75	74

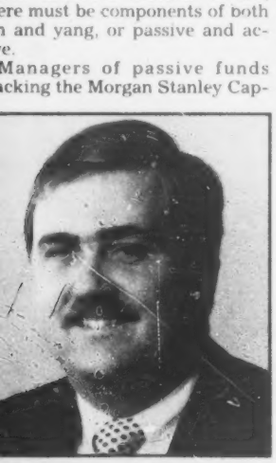
Source: Political Risk Services, division of IBCUSA Inc., Syracuse, N.Y.

ndexers catch half the picture

By Remi J. Browne

Eastern philosophies teach that to create a fruitful whole, ere must be components of both n and yang, or passive and ac-ve.

Managers of passive funds acking the Morgan Stanley Cap-



emi J. Browne is vice esident-enhanced ternational funds department State Street Bank & Trust o., Boston.

ital International Europe Australia Far East Index, heavily weighted with Japanese stocks, have produced excellent results during the past several years. But could they have done better by introducing a yang element to their portfolios? I say yes.

Taking the EAFE index as a departure point and applying the methods of "bottom fishing," that is, investing in low-multiple equities, one can consistently add value to the index without incurring a significantly higher degree of risk.

Many investors are familiar with some of the studies on the incremental return on low multiples as well as Benjamin Graham's theories focusing on price and book value and other fundamental analysis.

Most of the work in this area has focused on the U.S. market. I think we can apply some of the theories of these financial pioneers to foreign markets.

To test the ideas, my colleagues and I used data for more than 1,000 companies in the EAFE universe for the nine years ended Dec. 31. The data include two price multiples — price to earn-

Continued on page 48

	Compound annual return above universe	Countries with excess return
TABLE A		
Price-to-book value	5.8%	13
Price-earnings	2.4	12
TABLE B		
Price-to-book value (industry controlled and market weighted)	3.7	13
TABLE C		
Price-to-book value (10% industry controlled and equal weighted)	6.1	15

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